RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Apr. 12, 1995 **LETTER 1171**

THE FLAT TAX!! I've been talking about it and advocating it for years, and it just could happen -- which would be extremely bullish for the market and the nation -- see Notes & Quotes.

READING THE MIND OF A FOREX (FOREIGN EXCHANGE) TRADER: "Ah, those arrogant Americans. They think they can continue to run up Federal deficits at the rate of a billion dollars a day. They think they can continue to run trade deficits of 150 billion dollars a year. They think they can flood the world with depreciating paper dollars while the great American spend-and-consume party goes on forever. As for the Fed, it thinks it can just sit on low interest rates and do nothing. And we're supposed to leave the dollar alone?

"Forget it. Give us time, we'll knock the Fed off its dreamy-pedestal. And we'll keep selling dollars until or as long as Americans refuse either to defend the buck -- or to get their house in order. US debt, US deficits, "benign neglect" of the dollar by the Fed and the Treasury and the Administration -- they're either arrogant or stupid, I don't care which. I'll just keep selling the dollar and reaping the profits. Listen, my world, the FOREX world, is as emotionless, heartless and coldly clinical as a surgeon's knife. We FOREX traders scrutinize the nations of the world for fiscal stupidity, trade weaknesses, inefficiencies, deficits -- and, in case you didn't know it, we also like profits. So we'll continue to sell the dollar. Selling the buck has been an annuity for FOREX traders for years. So what else is new?"

THE MARKET: Should we call this the "hybrid bull-bear"? Or should we call it the "big-cap bull market?" Or maybe we should call it "mish-mash on Wall Street"? Wait, the best thing to do is to examine it closely to see what's actually been happening.

Turning to the page 1 chart, it's clear that the Dow's been rallying strongly. The non-confirming Transportation Average is still roughly 200 points below its 1994 bull market high, but at least the Transports have been traveling in the right direction (up), and that's a big plus. As for the Utilities, they remain far below their September 1993 high of 256.46..

Next, we come to the Dow action compared with the action of the majority of stocks on the NYSE. I've included on page 2 a chart of the Dow, my Primary Trend Index (PTI) and the advance-decline ratio (the last, by the way, is a proxy for ALL the stocks on the NYSE).

From its January 31,1994 bull market high of 3978.36, the Dow sold off to a low of 3593.35 recorded on April 4, 1994. Since that date, the Dow has **never sold lower.** This resistance to decline has been the backbone, the strength of the stock market ever since April 1994.

I wrote repeatedly at the time that the Dow low of April 4 was the KEY to this market. To put it another way, the market was not going to fall apart as long as the April 4 Dow low of 3593.35 held intact.

In retrospect, we know that the Dow did hold stubbornly above its April low. And big money was continuing to funnel into the big-cap stocks. The Dow worked generally sideways until its **November 23 low of 3674.63.** Following that low, the Dow took off strongly to the upside.

Mar. 31 DJIA 4157.69; PTI 4019; A-D Ratio -7.87
Apr. 7 DJIA 4192.62; PTI 4041; A-D Ratio -7.57
Dow Yield: 2.61%; Dow Price/Earnings: 16.3
Dow 200-day MA: 3859; Dow 30-day MA: 4074
Dow Times Book Value: 3.75; PTI 89-day MA: 3987
Percentage of Undervalued Blue-chips: 9%
Dow Low Risk Buy Index: +73; Gold-PTI: 780
Gold 200-day MA: 383.91

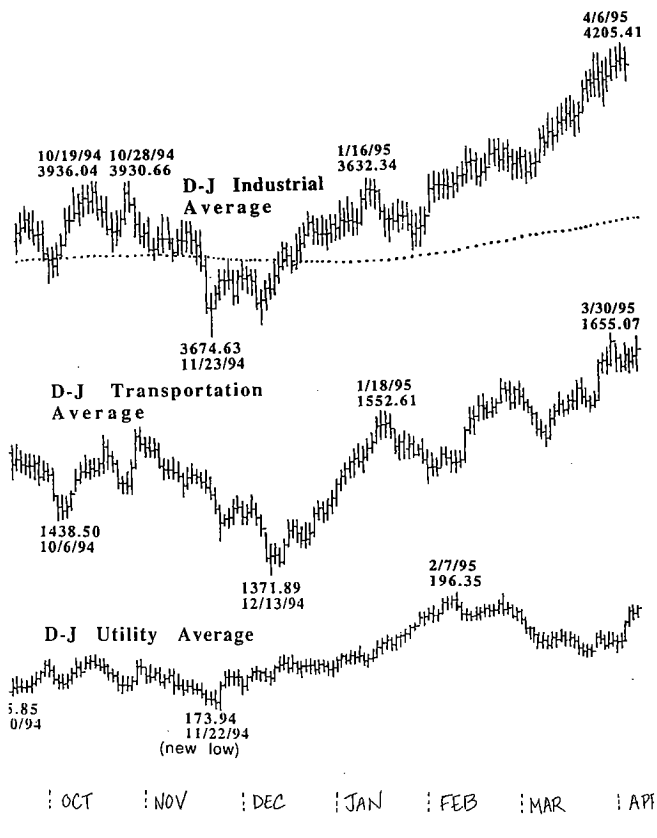
However, it's been a different story for both the PTI and the A-D ratio. The PTI topped out on February 2, 1994 at 4098 and headed lower. It continued down, recording a **low on December 8, 1994 at 3924.** From there the PTI turned up. On February 2, 1995 the PTI turned **bullish** by crossing ABOVE its 89-day moving average.

Now let's turn to the advance-decline ratio. For new subscribers I should explain that this index tracks the advancing or declining tendencies of the majority of NYSE issues. When it rises, it means that the majority of NYSE stocks are rising, and when it declines it means that the majority of NYSE issues are declining.

The A-D ratio recorded its bull market peak on February 2, 1994 at -1.17. From there it turned down, declining steadily to a **low recorded on December 9 at -11.07.**

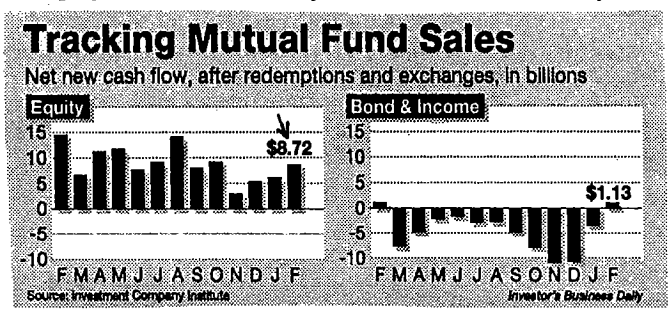
From their December lows, the PTI and the A-D ratio both turned up, and they have been rising ever since. From its December low, the PTI has recovered **57%** of its 1994 losses. From its own December low, the A-D ratio has recovered just **33%** of its 1994 losses.

The sub-standard recovery of the A-D ratio is the fly in the market ointment. This mild recovery explains why there has been a dearth



of new 52-week highs on the NYSE. It is also the reason for a goodly amount of frustration on the part of a great many investors.

In the meantime, the public continues to pour billions of dollars monthly into the mutual funds. The funds then turn around and sink the new money into the stock market. With stocks clearly overvalued, the funds move into the very liquid big-cap Dow type stocks (the "safe" stocks) and the Dow plows higher. The page 2 chart tells the story (note four months of increasing cash flow into the equity funds; chart courtesy of *Investor's Business Daily).*



INVESTMENT POSITION: With the Dow at record highs, should I keep the bear in the box? Or should I let the bull in? Or -- should I just put a question mark in the box (I've done that on a few previous instances)? Nope, I'll just keep the bear in the box, if for no other reason that this will possibly keep a certain number of my subscribers out of this market.

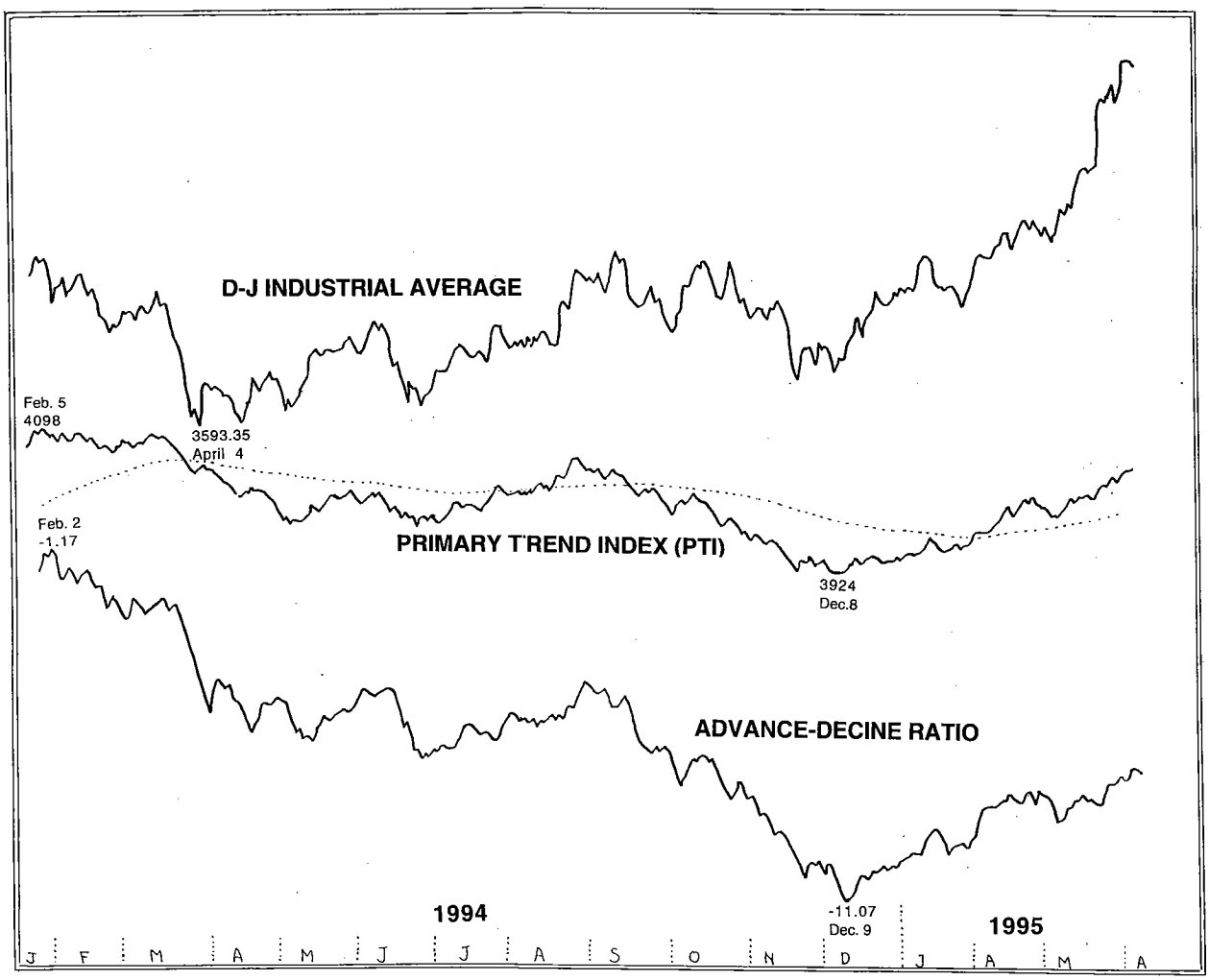
Now why would I want to do that? Answer: Because I don't believe the **risk** in buying or holding stocks here is worth the potential **reward.** History tells us that when the public is in love with a market yielding 2.65% (as per the current yield on the Dow), the odds are that a year from now that market is going to be lower, maybe a good deal lower.

It's a tough call, but as I've said many times before, they don't run the market for Richard Russell.

Listen, I've been watching markets daily for 45 years, and I can tell you that this is one weird market. Example -- on April 4 with the Dow at a new record high there were only 99 new 52-week highs on the NYSE and of the 15 most active stocks, only 2 were up and 10 were down! (Of course, anyone who's been watching the market on a daily basis for 45 years is a little weird himself.)

THE TIMES ARE A'CHANGIN': One of the areas that fascinates me, one of the areas that I spend a lot of time thinking about is simply -- **changes.** And I'm talking about major changes, changes coming up that are so important that they could alter the world as we know it. What are these changes? If I knew for certain, I would probably be one of the most powerful men on earth. As it is, I can only guess or offer my humble opinions. At any rate, here are some of the potential changes that I think lie in our future:

(1) The rise of electronic communications (Internet, satellite TV, FAX, wireless telephone, etc.). Everyone is aware of these areas, but I believe that the results of the communications revolution is just beginning to be seen. As older readers know, I'm of the opinion that Soviet Communism collapsed as a result of outside information (via computers, TV, radio) seeping into Soviet homes.



When the Russian people saw what actually was happening in the "outside world," when they saw what life in the US was like compared with life in the Soviets, that did it. They realized that Communism produced nothing and gave them nothing. With that shocking realization, the Soviet empire fell apart. Look for more of the same in other areas (for instance, Burma).

(2) The demise of the so-called Third-World concept. This amounts to probably the greatest upheaval of the last 30 years. What I'm referring to here is the rise of the "under-developed" nations. With the spread of free markets, privatization and booming world trade, the old Third World nations have been overrun by massive and dynamic change. The clear-cut lines between the rich countries and the poor countries is being blurred if not swept away. High tech in Malaysia, chip production in China, TV manufacturing in South Korea. The "developing" nations are forecast to grow 70% faster than the industrial countries during the next decade. Mull that over.

(3) The falling dollar and the possibility that the dollar could lose its status as the world's reserve currency. Combine this with the rise of the US as the world's largest creditor, a nation with a national debt approaching $5 trillion. Currently, the US is the only "super-power" on earth, but I believe that the long-term slide of the dollar is closely tied to the super-power status of the US. Let the dollar fall, let it lose its reserve currency status, and the US will no longer be considered a super-power. As an aside, with the collapse of the Soviets, the world no longer needs the US as a buffer against Communism. Result -- the world is *far less dependent* on the US.

(4) The increasing split between the rich ("elite") class and the poor class in the US (and probably in other nations throughout the world). As the "knowledge elite" and the "computer elite" increase their wealth, the 70% of Americans who remain technically-ignorant will become simply service people to the elite. They will flip hamburgers, make the beds, sweep the floors, drive the limousines, tighten the screws, and pour the cement. But in general they will not be wanted or needed in anything like today's numbers. Where they are needed for manual or low-level jobs, they will still lose out because many of those jobs will be exported to low-wage nations overseas.

(5) US and world oil needs are rising. For the first time, the US **now imports over 50%** of its oil. At the same time US domestic oil production is scraping the bottom. Thus the US and many other developed nations are increasingly dependent on one of the most *unstable areas* of the world, an area populated by the Arab nations and their enemies. I guess I should add here the rise of the Islamic militarism. This trend could easily threaten or even topple some of the Arab states that are still friendly to the West.

(6) The (economic) rise of China and India, both with populations of *over one billion.* Add to this the huge population of Malaysia, and we have what is fated to become increasingly fierce, low-wage competition in world markets. And make no mistake about it, this competition will be technically proficient. Of course, these huge populations will also bring on an increased need for food.

(7) The move in China and the rest of Asia from the countryside to the cities (an estimated billion people will make this journey in the next 10 years). Conversely, in the US I believe we will see an important move by people away from the cities and even the suburbs (which are expensive, over-crowded and dangerous) to the hinterlands, the country and to the less-populated areas of the nation. Making this possible, of course, will be the new communication capabilities. From an information and communications standpoint, nobody is isolated or cut off any more. This alone has been one of the most dynamic and dramatic changes that I have seen in my lifetime.

When I moved from New York City to San Diego in 1961, my single biggest worry was receiving **information.** It took 4-5 days for the *Wall Street Journal* and the *NY Times* to reach me in San Diego. Brokerage machines were slow and offered incomplete info. Life was a constant struggle to find out what was going on in the world and on Wall Street. Today, I don't even think about communications problems. I get Bloomberg info via satellite, I get Globex quotes all night long via another satellite, I get the *WSJ* at 4AM in the morning along with the *NY Times,* I get CNBC, I get the *Business Channel* out of LA, and I get instant quotes and info via the fabulous Aspen computer system all day long (and currency quotes all night via the inter-bank). Today I'm swamped with information. My least worry is communications and information, my biggest worry is what to do with all this incoming information.

(8) Finally, and this is crucial -- Japan, for its future growth, is turning *away from the US and towards Asia.* The new Japanese theme song: Datso-0-nya-ah or "leave the West, enter Asia." Japanese investors are dumping their US investments (real estate, stocks, bonds), repatriating the dollars, switching those dollars to yen, or simply selling the dollars.

As the yen climbs higher, this allows Japan to buy raw materials (oil, metals, agriculturals, all denominated in dollars) at bargain prices. At the same time, the Japanese are escaping the high cost of the yen by exporting their manufacturing to low-wage areas of Asia and even to the US. But most importantly, Japan is directing its investments to Asia: China, Indonesia, Thailand, etc. Furthermore, Japan has been one of the biggest buyers of US debt. That process is coming to a close. Consequently, the US will have to find new buyers for its deficits. But where? And at what rates of interest?

NOTES & QUOTES: It's easy to see why Fed Chairman Greenspan wants to revise the CPI (inflation) figures. Billions of dollars in government trust funds are linked to the CPI figures, and if inflation heats up, it costs the government additional billions, and these are all added to the national debt . . . And speaking of the national debt, each 1% increase in interest costs the nation an additional $50 billion (1% on the almost $5 trillion debt). The interest on the national debt was $293 billion in 1993, $296 billion in 1994, an estimated $329 billion in 1995 and an estimated $344 billion in 1996 and in 1989 the estimate is $389 billion . . . Compound interest, it's the eighth wonder of the world. But when you compound debt -- it's the first financial horror of the world.

* *

From last week's *NY Times* (A. M. Rosenthal column): "The evidence is now in -- not all of it yet, but enough to prove that the US Government knew a year in advance that Mexico was headed for financial disaster. The chronology shows that the Administration used the year to keep the information secret and feed the American public a false, knowingly deceptive line about the strength of the Mexican economy . . . The cover-up went on until Mexico was only a day or two from bankruptcy." **Russell comment**: Where's the accountability? If I lie in my business, I face the music. Who's facing the music in Washington, and how about the billions of dollars that Clinton "loaned" to Mexico without consulting Congress?

* *

The great German unification "disaster" has turned out to be a success. The *International Herald Tribune* writes, "With a chicken in every pot and a satellite dish on every roof, Eastern Germany seems to have experienced the worst of its transformation from an inefficient economy to one in which supply and demand call most of the shots." **Russell comment:** German efficiency, I hated it during World War II (when their radar-directed flack damn near killed me), but you've got to admire their efficiency today. Nary a word in the newspapers about "East German problem," no, what we read about instead is the pride of Germany -- their all-powerful D-mark.

* *

Scoreboard (last 12 months through March 17) -- British pound: +0.3% against the dollar; Austrian Schilling: +22.3% against the dollar; D-mark: +22.1%; yen: +18.9%; Swiss franc: +25.0%. Make no mistake about it, these figures trace the loss of American economic strength. They mean that foreigners can buy American assets on the cheap.

* *

Mark Skousen [*Forecasts & Strategies,* (301)424-3700] says this about S. Africa: "Unfortunately, the outlook for S. Africa is gradually turning negative. Taxes have been raised 45% for anyone

earning $22,000 or more! The federal deficit is monstrous (6.5% of GDP). Inflation, though falling, is 10%. Unemployment is at 40%. Crime is skyrocketing. And foreign capital is not forthcoming as expected." Says Mark, "Take your profits and get out NOW!" **Russell comment**: My old friend Jim Blanchard has been to S. Africa dozens of times, and I take it Jim disagrees. Personally, I'd hate to see S. Africa fall apart after all the pain it's gone through. It's a situation I'm watching closely.

* *

Senator Arlen Specter, an admitted long-shot, has entered the presidential race. Specter is pro-choice and a big booster for religious tolerance. But most important -- he's for a flat tax of 20%. I've said all along that the **single smartest thing the Republicans can do** is come out with the flat tax on their platform. Make no mistake about it, Americans are totally fed up with our current, expensive, insane tax system. And I believe the party or the candidate who'll assume a firm stand on a flat-tax platform can win. Roger Stone, Specter's chief advisor, called the flat tax proposal *"the most important thing in our campaign. We'll talk about it more than anything else."*

But is there a flat tax in our future? Not according to Milton Friedman *(WSJ,* March 30). Writes Friedman: ". . . ask yourself why it is that we have a new tax law every year or so (six in the past 10 years) . . . Why? The answer is obvious: only when there are new tax laws do the members of Congress have something to sell. Only then is there something that lobbyists can buy to earn their incomes. Since members of the House need to get election funds every two years, and since a third of the members of the Senate need to get election funds every two years, there is a continual supply of purveyors of special privileges . . . It is hard to see any easy way to overcome this obstacle to the enactment of a flat-rate tax."

Russell comment: Friedman's logic is sound, but I'm not at all convinced that he's right on this issue. I happen to think that the flat tax has a chance of being passed, maybe even this year. Remember, it has a number of powerful and influential men behind it, including Malcolm Forbes, Jr. and power-Senator Bill Archer. Furthermore, I believe the flat tax would be tremendously bullish for the nation and for the stock market. In the final analysis, it seems to me almost impossible that the Republican brass can fail to see the huge politicial gain if they can sponsor and then bring in the flat tax. The flat tax -- it's an idea whose time has come.

I'm including this clip from the April 4 *USA Today.* Read it with a magnifying glass if you must, but read it -- this could be tomorrow biggest news.

* *

We spent a day and a night in Las Vegas last week. Reason, wife Faye's law firm had a corporate retreat there, and I went along for the ride. No, I didn't gamble, and yes, the Las Vegas strip is mobbed. We stayed at the giant Mirage hotel, where the famous white tigers are kept along with their magic-mavens, Sigfried and Roy (who are now multi-millionaires). It's obvious that Las Vegas wants an image as a family fun center (where the suckers indulge in "gaming" not gambling). It's amazing to see people spending hours, days, trying to beat the odds and come away from Vegas with more money than they arrived with. Question: have you ever seen statistics on how many people leave Vegas as winners vs. those who leave as losers? You bet you haven't. Vegas would never release such figures (my bet -- at least nine out of 10 are losers).

But I did get some interesting figures from the Mirage's sports bar. Here are the latest Vegas odds for teams to WIN the coming Super Bowl XXX: San Fran. -- 2/1; Dallas -- 3/1; New Eng. -- 8/1; Miami -- 10/1; Steelers -- 11/1; Denver -- 20/1; San Diego, Raiders, Packers -- all 22/1; Buffalo, Arizona, Cleveland, Vikings -- all 25/1. If I had to bet my pick would be the New England Patriots to win. I think young quarterback Bledsoe is phenomenal, and the team's got a great coach in Bill Parcells.

* *

You want to invest in foreign markets, how much liquidity is there? Get this -- the combined market capitalization of GE, XON, AT&T, Coke, Philip Morris and GM is about $400 billion. The entire Hong Kong market's capitalization is roughly $275 billion, Mexico's -- $150 billion, Brazil's -- $100 billion, India's -- $60 billion, China's -- $30 billion.

* *

There's a new book out entitled, "Crime and the Sacking of America, the Roots of Chaos," by Andrew Thomas. Part of the chaos, I think, is due to the absence of fathers and the fact that 20% of white babies and 68% of black babies are born out of wedlock. The author is particularly scornful of trying to solve the crime problem via gun control. Writes Richard Neely in a *WSJ* review, "In West Virginia, where I live, the average household has several guns, yet West Virginia has the lowest crime rate in the US. Our secret is that we have America's lowest female labor-force participation rate and large, extended families, so that even many illegitimate children have uncles and grandfathers around. Would the people who cry most loudly for gun control support prohibitions on divorce or a more censorious approach to illegitimacy?" **Russell comment**: I continue to believe that keeping guns out of the hands of honest citizens is ridiculous. But the "experts" continue to think that gun control and bigger prisons will solve or even help the crime problem. Crime is both a social and a moral problem. We're failing on both counts. Take the guns from the good guys and give the death penalty to the bad guys -- yeah, right, that should do the trick.

* *

Another new book entitled, "The Central Banks" by Deane and Pringle, seeks to examine who these banks are and how they work. The problem with central banks is that they create "value" by pen-strokes, but at the same time honest people know that value comes from brain-work, investment and hard work. The very act of currency creation by fiat is basically immoral. After all, what have the governors of the Federal Reserve done that entitles them to create what we laughingly term money? Ah well, it's all part of the new world morality, and you have to ask if there isn't a connection between this book and the book that I discussed above. An immoral currency militates towards an immoral society.

But don't think the troubles are confined to the US. Most of the rest of the world is in ferment. One theory is that with Communism dead, there's no common enemy to unify

GOP drafts Kemp to study flat-tax plan

By Judi Hasson
USA TODAY

Republican leaders Monday appointed former GOP congressman Jack Kemp to study a plan for a flat tax — the long-debated proposal to have most taxpayers pay the same basic rate regardless of income.

House Speaker Newt Gingrich, who's championing a tax cut, and Senate Majority Leader Bob Dole, who wants one if it's paid for, appointed a nine-member commission to study reforming the tax system and come up with recommendations by October.

"The tax laws today are so complicated they can't be understood by anybody or the IRS," said David Keating of the National Taxpayers Union. "The flat tax would be a fair tax because people would be assured that everybody is going to pay the same rate."

It's also appealing to Republicans looking for an issue for next year's presidential race.

"We hope that this may then become one of the major vehicles as we go into the 1996 election," said Dole of Kansas, who formally announces his bid for the GOP presidential nomination next week.

By Joe Marquette, AP

TAX MAN: Jack Kemp, flanked by House Speaker Newt Gingrich, left, and Sen. Bob Dole, will lead a panel studying the flat tax.

Dole has been cautiously supporting a tax cut this year. But he remains noncommittal on who should get it and how much it should be.

But Gingrich, who wants a tax cut this year, said: "There is a yearning in America for a very profound rethinking."

Kemp, the former HUD secretary and New York congressman, said the tax system will be the commission's chief focus.

The House this week is scheduled to consider the Contract with America tax-cut plan, $189 billion over five years, including a $500-per-child credit for families earning up to $200,000. Dole has said the Senate, too, will pass a tax cut this year, although probably a smaller one.

But many Republicans, including House Majority Leader Dick Armey, are advocating a more sweeping overhaul eliminating the income tax system in its current form.

Armey would eliminate most deductions and charge a flat 17 percent tax on all earned income above $35,000.

Kemp, who has announced he will not run for president next year, already was soliciting candidates' tax ideas.

people, no common enemy for the free world to zero in on. So what happens? People focus on their own government's transgressions and their own problems. In Britain, the conservatives are in deep trouble. In France (with 12% unemployment), Socialism is kaput. In Italy right-wing reform didn't work, and corruption makes the headlines daily. In Germany both the left and the right wings are unpopular. In Belgium, scandals have reached the highest levels in NATO. In Russia the Mafia has all but taken over, along with the KGB. China debates its future with Deng Xiaping near his deathbed. Japan is a special case. A model of stability for decades, Japanese are losing faith in everything, from the economy to the government and even their relationship to the US. In Japan, lifetime employment is no longer guaranteed, and crime is rising. Scandals have been wracking Japan and governments have been collapsing one after another . . . With new highs in the yen (it's up 33% against the dollar in the last three years) Japan has been losing its grip on the luxury car market. Sales of Honda's Acura are 24% behind last year. The Q45 starts at $52,850 today, up 25% from $42,385 three years ago. LS400 is $51,680, 21% higher. Legend is $35,920, up 29%. In the face of this, German car makers have cut their prices or come out with lower-priced lines.

* *

The global problem -- six billion people on earth want "more" in the face of shrinking world resources and rising debts. Everyone wants "his share," but strong entrenched lobbies work for the status quo. Everyone wants a bigger piece of the pie, and no one is willing to take less. Welcome to Planet Earth.

* *

Politics As Usual? Are the Republicans really going to make a difference as far as the deficits are concerned? You have to wonder. With a bow to the farmers, the GOP has left the giant $27 billion Food Stamp program alone. And when they tried to cut a little $200 million from the $17 billion Veterans Administration budget, the vet lobby screamed bloody murder and no cuts were made. Of course, Clinton egged the lobby on (Clinton is still trying to woo the vets and make up for the fact that he, Clinton, was a draft-dodger).

* *

It's ironic but whereas Gingrich and the Republicans are attempting to bring about change, Clinton (who was elected on a program of "change, change, change") now represents the status quo, the party against change. Go figure.

* *

Big bucks -- or the take from "Forrest Gump." So far director Robert Zemeckis is ahead by $36 million, and Tom Hanks has taken in $40 million. Nothing like participation in a super-winner.

* *

The only true safety in a Democracy is an informed electorate. Unfortunately, I don't think the US is going in that direction. Newspaper sales are poor, our kids watch MTV, not CNN, and politicians continue to pull the wool over the voters' eyes. As long as the voters don't know or don't care about what's happening, the pols can do as they please. As my father used to say, "The only thing they can't take away from you is what's between your ears." But my fear is that not enough people today are using what's between their ears. Therefore, no flat tax (just rising taxes) and no term limits.

* *

One thing I love about the markets is that *the markets ultimately give people what they deserve.* Fearful people never do anything in any markets, so they are doomed to frustration. Eternally optimistic investors get destroyed in the bear markets that follow bull markets. Perma-bears never make the big money and stay awake nights combing the papers for bad news. Greedy investors load up near the top third of bull markets and then get killed during the ensuing bear markets. Lazy people don't do their homework -- they buy on rumors or hearsay or they depend on someone else's advice-- so that generally they lose their money.

* *

Ruskies: According to the *Financial Times* (Mar. 29): "The worst may be over for Russian debt. Earlier this month, Russian debt fell to 18 cents on the dollar. Last week it rallied to 21 cents on the dollar." **Russell advice:** Don't load up on Russian debt quite yet.

* *

A subscriber sent me this history of US first class postage: 1932 -- 3¢; 1958 -- 4¢; 1963 -- 5¢; 1968 -- 6¢; 1971 -- 8¢; 1974 -- 10¢; 1975 -- 13¢; 1978 -- 15¢; 1981 -- 20¢; 1985 -- 22¢; 1988 -- 25¢; 1991 -- 29¢; 1995 -- 32¢. That's quite a record, and this in the face of E-mail and FAX. How long before the stupid Post Office puts itself and its 700,000 employees out of business? Again, I say, take the PO private and give us a break.

* *

This from Congressman Bill Baker (CA) in the *WSJ* (Apr. 3): "We are spending about $350 billion a year on 79 means-tested Federal welfare programs. If distributed in grants, this would mean $8,939 to every person defined by the Federal government as poor -- or almost $36,000 to a poor family of four . . . Yet our welfare system is a colossal failure. Of the five million families receiving welfare benefits, only 20,000 family members work. And the growing number of children born out of wedlock into welfare families are three times as likely to be on welfare themselves as adults. Perpetuation of the system in the name of compassion would be mindless." **Russell comment:** A mind-blowing letter, wouldn't you say?

* *

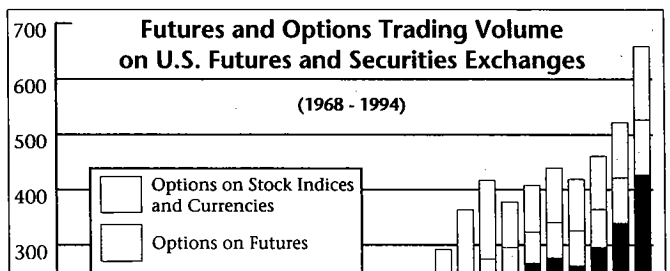
Love him or hate him, Rush Limbaugh's show is now the number one rated late-night syndicated TV show. On top of that, 20 million Americans listen to Limbaugh's number one rated talk-radio show each day. The liberals are pulling their hair out over Limbaugh. Me, I like him, and he's clearly a major force for the Republicans. Rush's main line -- liberals are mostly mindless and 50 years of the liberal philosophy has nearly wrecked the nation.

* *

My old home town of NYC is changing. By the turn of the century two-thirds of the City will be ethnic, mostly Latino and black, with only one-third white. Apartment rentals in the City are now the tightest in 10 years. I left NY in 1961; that was the last year you could park your car on the street in Manhattan without (1) it being ticketed or (2) it being vandalized or stolen.

* *

Is there a future in futures? Better believe there is. Just check the figures. This chart from *Futures Industry* shows volume (in millions) in options and futures going back to 1968. Any way you look at it, volume is huge and growing.


Futures and Options Trading Volume
on U.S. Futures and Securities Exchanges
(1968 - 1994)
Options on Stock Indices and Currencies
Options on Futures
Futures Trading Volume
700
600
500
400
300
200
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Tax madness: An economist for the Tax Foundation notes that the 56.3 million tax filers representing the bottom half of income earners pay only 5.1% of all income taxes. This raises the question -- does it cost more than it is worth to collect taxes from this huge group? By the way, the top 10% of American earners paid *more than half* (57.6%) of all personal income tax revenues.

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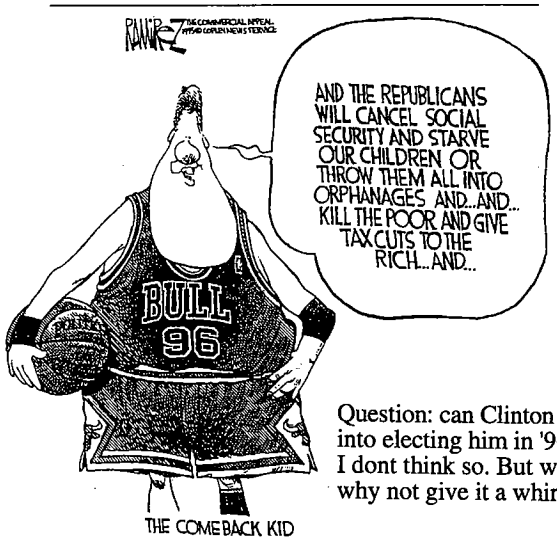
Hollywood: The talk is that MCA could drown in red ink thanks to Kevin Costner's film in progress, "Waterworld." The word is that the budget for Waterworld has careened to $175 million, making it the world's most expensive movie. In order to make a profit, the film would probably have to break all box office records.


AND THE REPUBLICANS WILL CANCEL SOCIAL SECURITY AND STARVE OUR CHILDREN OR THROW THEM ALL INTO ORPHANAGES AND...AND... KILL THE POOR AND GIVE TAX CUTS TO THE RICH...AND...
BULL 96
THE COMEBACK KID

Question: can Clinton scare voters into electing him in '96? Personally, I dont think so. But what the heck, why not give it a whirl.

PRECIOUS METALS, GOLD: On April 5 my Gold Primary Trend Index finally rallied over 800, action that turned the G-PTI bullish. Palladium originally led the precious metals higher, then silver and platinum joined in. Against the surge in these three metals, gold is looking cheaper all the time.

I ran off quite a few charts, and they're mostly self-explanatory. Study them carefully. With the dollar weak and wobbly, gold becomes an increasingly attractive holding. From another standpoint, with the currencies (yen, D-mark, Swiss franc) strong, gold appears cheaper and cheaper in terms of these currencies. So on every count, gold "should" be ready to have its day (or month or year).

Chart 1 shows the gold/yen ratio, and the slow stochastics are now scraping the lows. This tells us that the ratio is sold-out, and that gold should start to rally against the yen.

Chart 2 shows the Gold/Silver Average (XAU). The XAU has clearly turned bullish, having risen out of a head-and-shoulders type bottom.

Chart 3 shows weekly platinum, which has risen from a 1993 low of 338 to last week's 462, a rise of 37%. During the same period, palladium has more than doubled. Now if gold only ---

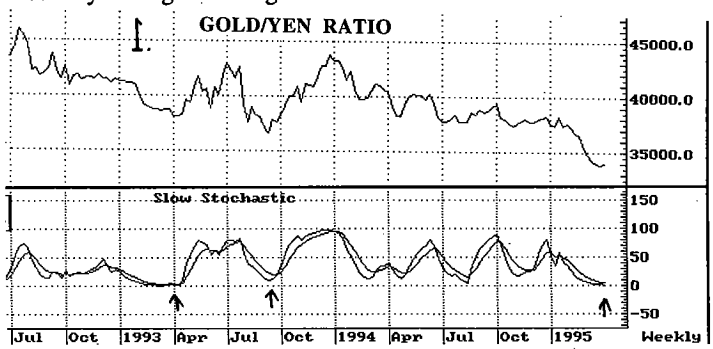
Chart 4 shows my Gold-PTI. It's finally rallied above its January peak of 783. Having done this, the G-PTI is entitled to back off and rest a bit, but the chart is now quite encouraging.

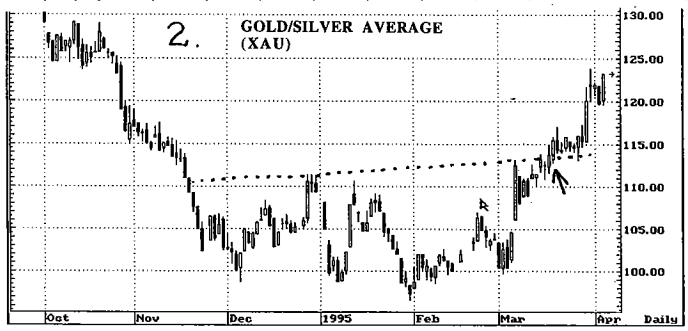
A great many of my subscribers are already in gold coins or gold shares or gold funds. My stock choices for newcomers would be Placer Dome, Homestake, American Barrick. Homestake is one of the few gold shares that has not sold forward gold, which means that if gold rises Homestake should reap the full benefit of higher prices.

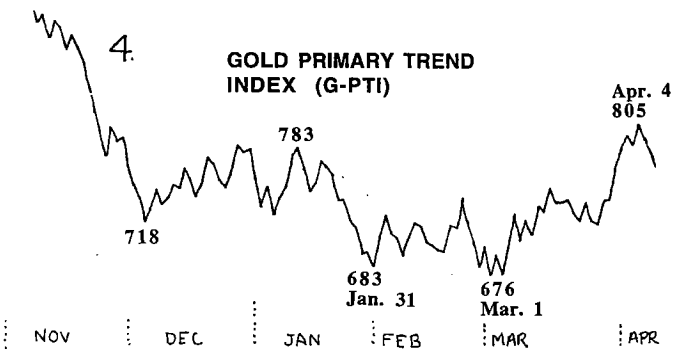
I've mentioned in previous Letters that I bought and am holding gold options. The most interesting gold options are probably the 420s or 440s going out as far as December. The main advantage of options (particularly out-of-the-money options) is that they allow you to assume a leveraged position for a limited amount of money. Options are most attractive when bought in a quiet period when volatility is low -- but when you are reasonably convinced that a major move lies somewhere ahead.

Am I reasonably convinced that a major gold move lies ahead? Let me put it this way -- platinum has taken off, palladium has taken off, silver has taken off, even copper has surged higher. The "hard" currencies have gone almost parabolic. The Dow/gold ratio at 10.7 (the Dow now buys 10.7 ounces of gold) is almost ridiculous. And finally, the gold technicals are looking pretty good, so why not "go for the gold?"

NEXT MAILING: Apr. 26, 1995







LATE NOTES: Japanese yen in an incredible "blow off" rise against the dollar -- where will it end? . . . US retail sales are now sliding and retail stocks have been reflecting it. Remember, consumer spending represents two/thirds of entire GDP. Question: Does the widely-advertised "soft economic landing" lie ahead? Don't count on it. Most of history's predicted soft landings have turned out to be rather "hard." The lagging Transportation Average continues to tell me that there's something very wrong with the bull scenario . . . O. J. Simpson trial is in a meltdown. Don't kid yourself, this trial is about three things -- race, race, and race . . . Edgar Bronfman Jr. selling all Seagram's DuPont holdings (DD provided Seagram with the majority of its profits) in order to buy 80% of MCA? Ah, the optimism (and impetuousness) of youth. Steady DuPont for wildly volatile Hollywood? Not with my money. But Jr. is in love with Hollywood -- a classic case of a triumph of emotion over logic . . . Microsoft in potential head-and-shoulders top -- breakdown comes at 68. Watch it. Latest 12-month addition to US national debt -- a whopping $312 billion (highest total of the year), and they tell us they're cutting the deficit!